Northeast Group (NE MK)

Still Ample Runway For Growth

BUY (Maintained)	
Share Price	RM0.740
Target Price	RM0.930
Upside	+25.7%

Highlights

- Deeper participation in the production of high-spec precision components for AI infrastructure is emerging as a key growth pillar, underpinning sustained earnings upcycle into FY27.
- Outstanding orderbook continued to rise, underpinned by robust orders from E&E, photonics and telco segments, driving further expansion plan.
- While cost components, ie aluminium and copper, are surging, impacts are immaterial as component costs are only a small portion of the total costs. Maintain BUY with an unchanged target price of RM0.93 based on 25x FY26 PE.

Analysis

- **Riding the AI upcycle; translating into earnings visibility.** Northeast Group (Northeast) is increasingly monetising its indirect AI exposure, having progressed from first-article qualification to mass production of precision-engineered components embedded in AI infrastructure. This is spearheaded by its positioning within the supply chain of a contract manufacturer, serving a key US optical solutions provider to the world's leading GPU player. As optical demand accelerates alongside a deepening client relationship, order momentum is building, underpinning a multi-year growth runway potentially extending through 2027. While related revenue contribution remains sub-20% at this juncture, this segment is poised to emerge as the primary driver of its photonics division.
- **Broad-based order strength sustaining utilisation.** Despite geopolitical overhangs from the US-Israel-Iran conflict, core segments contributor in 1QFY26 – photonics (40%), E&E (20%), and telco (18%) – continue to exhibit resilient demand, collectively lifting utilisation to about 80% (higher qoq). This suggests orderbook expansion which could go beyond the RM42m level disclosed at end-February. Backed by stronger visibility, the group has committed to 16 new machines (out of 40 planned), with delivery by Sep 26, translating into an around 6% uplift in manufacturing capacity.
- **Forex fluctuation and rising raw material prices manageable for now.** Note that USD vs MYR swung from RM4.05/USD from early in the year, to as low as RM3.88/USD end-Feb 26 (4%) before rebounding to RM3.96/USD. Management noted that the forex impactcould be lower than last quarter (Oct-Dec 25, at a 4% swing) due to natural hedging. Based on our sensitivity analysis, every 1% deviation from our base case assumption of RM4.00/USD could move earnings by about 1.5%. On input costs, while aluminium and copper saw upswings of as high as 20% in the past quarter, management remains unperturbed given their relatively small proportion of overall ASP, which limits margin erosion at this stage.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	90.1	119.6	148.8	166.0	181.1
EBITDA	28.6	35.7	46.4	52.8	59.1
Operating profit	20.6	27.4	36.5	40.6	44.3
Net profit (rep./act.)	13.7	20.5	27.4	30.6	33.6
Net profit (adj.)	16.5	23.0	27.4	30.6	33.6
EPS (sen)	2.2	3.1	3.7	4.1	4.5
PE (x)	34.5	24.8	20.8	18.6	17.0
P/B (x)	3.6	2.2	2.0	1.8	1.6
EV/EBITDA (x)	17.1	12.0	8.5	6.4	4.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	18.3	19.2	18.4	18.5	18.5
Net debt/(cash) to equity (%)	(32.9)	(54.3)	(61.8)	(72.9)	(82.5)
Interest cover (x)	nm	nm	nm	nm	nm
ROE (%)	10.5	8.9	9.6	9.7	9.6
Consensus net profit			31.1	34.3	38.0
UOBKH/Consensus (x)			0.88	0.89	0.88

Source: NE, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

Analyst(s)
Desmond Chong
desmondchong@uobkayhian.com
+603 2147 1980

Stock Data

GICS sector	Metalworking Machinery
Bloomberg ticker:	NE MK
Shares issued (m):	740.0
Market cap (RMm):	547.6
Market cap (US$m):	138.3
3-mth avg daily t'over (US$m):	2.0

Price Performance (%)

52-week high/low				RM0.93/RM0.34
1mth	3mth	6mth	1yr	YTD
(1.3)	(12.5)	1.3	126.5	(11.5)

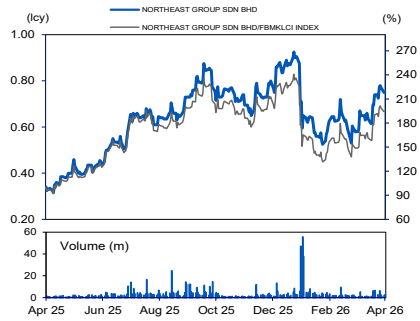
Major Shareholders

	%
Mountain Range	53.7
Ng Chay Chin	5.2
Norges Bank	4.5

Balance Sheet Metrics

	%
FY25 NAV/Share (RM)	0.35
FY25 Net Cash/Share (RM)	0.21

Price Chart



Source: Bloomberg

Company Description

Principally involved in the manufacturing of precision engineering components used in the E&E, optoelectronics, photonics, semiconductor and telecommunications industries.

- **Upping the ante to capture the next wave of growth.** Northeast is actively advancing up the value chain, transitioning from a precision component manufacturer to an integrated engineering solutions provider at the sub-modular level. To drive this strategic shift, the group has unveiled ambitious expansion plans, including the construction of a new factory (expected to boost production capacity by 50% and targeted for completion by 2H29) which will outfit with state-of-the-art Computer Numerical Control machinery, alongside the development of a dedicated warehouse facility. On the segment front, the group is positioning itself to seize emerging opportunities in the 6G wireless network, advanced cooling systems for data centres, and entry into new product markets.
- **Management structure adjusted, strategy unchanged.** At the company's latest AGM, a group of 22 shareholders representing 89% of voting shares voted against the re-election of Executive Director's Chong Ewe Hean. All other resolutions were approved, including the re-election of independent non-executive chairman Datuk Seri Lee Kah Choon, Chief Marketing Director Yin Thien Hee, and Chief Operating Director Ng Chai Hee. We understand that the outcome reflects a change in management structure, with no change in the company's business direction and overall strategy.

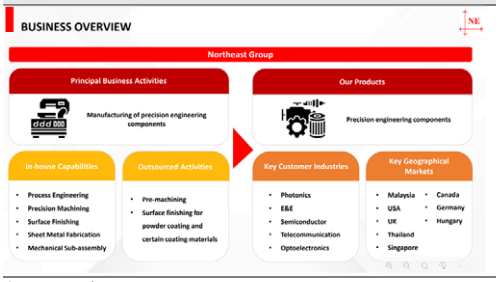
Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.93** based on 25.0x FY26F PE (which is at -25% discount to SPE's seven-year mean PE). We expect FY26 net profit to increase 19% on the back of cyclical recovery and growing relevance in its customers' technological advancement. This is notwithstanding the expansion pipelines in the next three years which could double its capacity and floor space.

Earnings Revision/Risk

- None.

Overview Of NE's Services

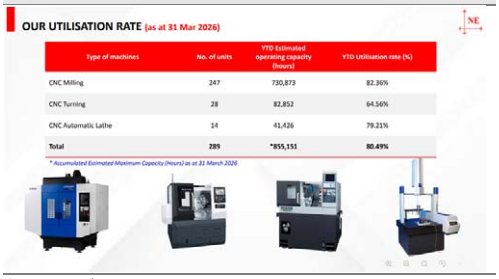


Source: Northeast

Overview Of NE's Products

Source: Northeast

Utilisation Rate


OUR UTILISATION RATE (as at 31 Mar 2026)
Type of machines
No. of units
YTD Estimated operating capacity (hours)
YTD Utilisation rate (%)
CNC Milling 247 730,873 82.36%
CNC Turning 28 82,852 64.56%
CNC Automatic Lathe 14 41,426 79.21%
Total 289 *855,151 80.49%

Source: Northeast

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2025F
Net turnover	119.6	148.8	166.0	181.1
EBITDA	19.2	26.6	28.4	29.6
Deprec. & amort.	8.2	9.9	12.2	14.7
EBIT	27.4	36.5	40.6	44.3
Associate contributions				
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	26.6	35.2	39.3	43.0
Tax	-6.0	-7.7	-8.6	-9.5
Minorities	0.0	0.0	0.0	0.0
Net profit	20.5	27.4	30.6	33.6
Net profit (adj.)	23.0	27.4	30.6	33.6

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2025F
Fixed assets	80.8	100.6	122.8	147.5
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	153.2	191.1	245.2	303.9
Other current assets	28.9	36.6	40.4	44.4
Total assets	294.9	360.4	440.5	527.9
ST debt	0.7	0.7	0.7	0.7
Other current liabilities	17.5	55.5	105.0	158.8
LT debt	5.2	5.2	5.2	5.2
Other LT liabilities	5.7	5.7	5.7	5.7
Shareholders' equity	259.1	286.6	317.2	350.8
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	294.9	360.4	440.5	527.9

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2025F
Operating	29.0	48.7	64.1	68.7
Pre-tax profit	26.6	35.2	39.3	43.0
Tax	-6.0	-7.7	-8.6	-9.5
Deprec. & amort.	8.2	9.9	12.2	14.7
Working capital changes	0.0	0.0	0.0	0.0
Non-cash items	2.2	-7.4	0.2	-2.8
Other operating cashflows	-1.2	-1.2	-1.2	-1.2
Investing	-21.3	-10.0	-10.0	-10.0
Capex (growth)	-21.7	-10.0	-10.0	-10.0
Investments	0.4	0.0	0.0	0.0
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	57.9	0.0	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	-24.2	0.0	0.0	0.0
Others/interest paid	-2.4	0.0	0.0	0.0
Net cash inflow (outflow)	65.5	38.7	54.1	58.7
Beginning cash & cash equivalent	86.2	152.4	191.1	245.2
Changes due to forex impact	0.6	0.0	0.0	0.0
Ending cash & cash equivalent	152.4	191.1	245.2	303.9

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2025F
Profitability				
EBITDA margin	16.0	17.9	17.1	16.3
Pre-tax margin	22.2	23.6	23.7	23.8
Net margin	19.2	18.4	18.5	18.5
ROA	7.8	7.6	7.0	6.4
ROE	8.9	9.6	9.7	9.6
Growth				
Turnover	32.7	24.4	11.5	9.1
EBITDA	-33.1	38.8	6.8	4.2
Pre-tax profit	39.4	32.4	11.7	9.5
Net profit	49.5	33.6	11.7	9.5
Net profit (adj.)	39.4	19.3	11.7	9.5
Leverage				
Debt to total capital	4.3	3.5	2.9	2.4
Debt to equity	4.9	4.4	4.0	3.6
Net debt/(cash) to equity	-54.3	-62.3	-73.3	-83.0
Interest cover (x)	nm	nm	nm	nm

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link: https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."